

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-03 H-01

INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 CAB-02 COME-00 DOTE-00 FAA-00 OMB-01 TRSE-00

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P R 021002Z MAR 75

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC PRIORITY 7701

INFO USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

C O N F I D E N T I A L SECTION 1 OF 2 MOSCOW 2779

E.O. 11652 GDS

TAGS: ESTC COCOM ETRD PFOR US UR SW

SUBJ: SALE OF US AIR TRAFFIC CONTROL SYSTEM TO USSR

REF: (A) STATE 041766, (B) COCOM DOC (74) 2582, (C) STATE  
258284, NOVEMBER 22, 1974.

1. SUMMARY. ON FEB. 27 AND 28 SPERRY-UNIVAC REPS MET WITH EMBASSY AND WITH STATE COMMITTEE FOR SCIENCE AND TECHNOLOGY (SCST) FOR INTENSIVE DISCUSSIONS ON PROPOSED SALE OF SPERRY AIR TRAFFIC CONTROL (ATC) SYSTEM TO USSR. MEETINGS CONFIRMED EARLIER REPORTS THAT DESPITE RECOMMENDATION IN FAVOR OF PURCHASE FROM SPERRY BY MINISTRY OF CIVIL AVIATION (MC) AND ALSO APPARENTLY BY SCST, A HIGHER-LEVEL SOVIET AUTHORITY HAS ORDERED PROCUREMENT FROM A EUROPEAN FIRM, PROBABLY FOR POLITICAL REASONS. SWEDISH FIRM NOW APPEARS TO BE LEADING POSSIBILITY AND SWEDISH MINISTRY OF FOREIGN TRADE HAS REPORTEDLY VISITED MOSCOW TO PUSH SALE. IN MEETING WITH SPERRY REPS, SCST OFFICIALS HAVE STRESSED THEIR BELIEF IN SUPERIORITY OF US SYSTEM, HAVE INDICATED THAT PRICE AND FINANCING NOT AN IMPORTANT FACTOR. THEY ALSO INDICATED THEIR AWARENESS THAT SWEDISH FIRM MAY HAVE DIFFICULTIES IMPORTING SOME US COMPONENTS. ALTHOUGH SCST  
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CHAIRMAN KIRILLIN SAID HE WILL LOOK INTO MATTER PERSONALLY,

EMBASSY BELIEVES INTERVENTION AT POLITICAL LEVEL IS IN ORDER AND REQUESTS INSTRUCTIONS FOR AMBASSADOR'S MEETING AT EARLY DATE WITH FIRST DEPUTY FOREIGN MINISTER KUZNETSOV. EMBASSY ALSO RECOMMENDS APPROACH TO AMBASSADOR DOBRYNIN OR CHARGE VORONTSOV AT SOVIET EMBASSY IN WASHINGTON. END SUMMARY.

2. EMBASSY OFFICERS MET WITH SPERRY UNIVAC EXECUTIVES ROM SLIMAK, EUROPEAN OFFICE, AND JEREMY SQUIRES, DIRECTOR FOR RUSSIAN ATC PROGRAM, SHORTLY AFTER THEIR ARRIVAL IN MOSCOW FEBRUARY 27. SLIMAK AND SQUIRES MET WITH AMBASSADOR LATER ON SAME DAY, HAD MEETING WITH SOVIET STATE COMMITTEE FOR SCIENCE AND TECHNOLOGY (SCST) MORNING FEBRUARY 28 AND IN LATE AFTERNOON OF SAME DAY MET WITH SCST CHAIRMAN KIRILLIN. FOLLOWING SUMS UP MAIN POINTS THESE MEETINGS AND PRESENTS EMBASSY'S PRELIMINARY ANALYSIS OF WHERE WE NOW STAND AND ACTION WE CAN TAKE HERE ON THIS IMPORTANT TRANSACTION IN US-SOVIET ECONOMIC RELATIONS.

3. MEETINGS AT EMBASSY.

SLIMAK PROVIDED FULL DETAILS BACKING UP REPORT IN PARA 1B REFTEL A THAT USSR MINISTRY OF CIVIL AVIATION (MCA) HAS BEEN DIRECTED "FOR POLITICAL REASONS" TO CEASE COMMITMENT TO SPERRY-UNIVAC ARTS-III SYSTEM, AND INSTEAD EXAMINE POSSIBILITY OF EUROPEAN PROCUREMENT. IN WAKE OF MANY TRIPS TO MOSCOW AND PROLONGED MEETINGS WITH OFFICIALS IN SCST, MCA AND MINISTRY FOREIGN TRADE, SLIMAK WAS CERTAIN AS OF EARLY JANUARY THAT SPERRY-UNIVAC HAD WON OUT OVER ALL COMPETITION, - FOREMOST OF WHICH HAD BEEN THOMPSON/CSF OF FRANCE AND STAANSAAB OF SWEDEN. MCA CHIEF GENERAL BUGAYEV AND COLLEAGUES APPEARED TO BE CONVINCED OF COMPLETE SUPERIORITY OF ARTS-III AND TO WANT IT AS SOON AS POSSIBLE. COMPLETION OF ROUTING PAPERWORK WITHIN SOVIET BUREAUCRACY APPEARED TO BE ONLY DELAY TO FINAL SIGNATURE.

4. ON JANUARY 15, TWO DAYS AFTER ANNOUNCEMENT OF SOVIET RESPONSE TO US TRADE BILL, SOVIETS ASSURED SLIMAK THAT BUSINESS WOULD CONTINUE AS USUAL. BY JANUARY 20, HOWEVER, VARIOUS SMALL DEVELOPMENTS INDICATED THAT "SOMETHING WAS WRONG." ON JANUARY 21 THREE DIFFERENT SOURCES FROM, RESPECTIVELY, SCST, MCA AND MINISTRY FOREIGN TRADE, ADVISED HIM THAT "CONTRACT WAS IN TROUBLE." BUGAYEV HAD SIGNED DOCUMENTS RECOMMENDING PURCHASE FROM SPERRY-CONFIDENTIAL

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UNIVAC, HAD SENT THEM "HIGHER" FOR COUNTERSIGNATURE. DOCUMENTS HAD "COME BACK DOWN" WITH ORDER THAT PROCUREMENT BE MADE FROM EUROPEAN FIRM. APPARENT PROOF OF THIS OMINOUS DEVELOPMENT IS FACT THAT PURCHASE NOW BEING HANDLED BY EUROPEAN SECTION FO MINISTRY FOREIGN TRADE.

5. LEADING CONTENDER FOR CONTRACT NOW APPEARS TO BE SWEDEN'S STAANSAAB. IRONICALLY, IMPORTANT PARTS OF STAANSAAB'S COMPUTER

SYSTEM (E.G. MEMORY COMPONENTS) AND TECHNOLOGY COME FROM US, AND SPERRY-UNIVAN NOW OWNS 49 PERCENT OF ONE OF STAANSAAB'S IMPORTANT SUBSIDIARY COMPANIES. FURTHERMORE, STAANSAAB WILL EXPECT HELP ON PROJECT FROM FAA IN US. SUMMING UP, SPERRY BELIEVES THAT IT WILL BE EXTREMELY DIFFICULT IF NOT IMPOSSIBLE FOR SWEDES TO ACCOMPLISH COMPLETE PROJECT ALONE EVEN THOUGH THEY MAY BE TECHNICALLY CAPABLE PRODUCING MOST OF EQUIPMENT NEEDED.

6. IN RESPONSE TO AMBASSADOR'S QUESTION, SLIMAK AND SQUIRES SAID THAT ALTHOUGH SOVIETS HAVE AT TIMES COMPLAINED ABOUT RISING COSTS OF CONTRACT -- NOW ESTIMATED AT BETWEEN \$35 - \$50 MILLION -- IT HAS BEEN OBVIOUS IN NEGOTIATIONS THAT COST NOT REALLY A FACTOR. NOR HAS ISSUE OF FINANCING OR CREDITS EVER BEEN SERIOUSLY RAISED - TOTAL VALUE OF CONTRACT NOT BEING REGARDED AS LARGE AND SPERRY-UNIVAC CONFIDENT THAT, IF NECESSARY, THEY CAN MAKE ARRANGEMENTS SATISFACTORY TO SOVIETS.

7. FIRST MEETING WITH STATE COMMITTEE.  
IN RATHER UNUSUAL DEVELOPMENT, SLIMAK AND SQUIRES MET WITH SCST FOR NINETY MINUTES ON MORNING OF FEBRUARY 27 AT SCST REQUEST TO PREPARE FOR THEIR MEETING WITH KIRILLIN LATER IN DAY. IN PRELIMINARY COMMENTS SCST OFFICIALS POINTED OUT THAT TIMING FOR COMPLETION OF CONTRACT NEGOTIATION WAS UNFORTUNATE, I.E. TRADE AGREEMENT SUSPENSION HAD JUST TAKEN PLACE, THAT US EXPORT LICENSE HAD TAKEN VERY LONG TIME, NOT BEING GRANTED UNTIL DECEMBER 1974. IN EFFORT TO "HELP" SLIMAK AND SQUIRES THEY THEN SUGGESTED POINTS TO MAKE THEIR PRESENTATION TO KIRILLIN AS EFFECTIVE AS POSSIBLE. THEY PROPOSED MINIMAL EMPHASIS ON TECHNICAL DETAILS, PRICE MATTERS, STRONG EMPHASIS ON SUPERIORITY OF US TECHNOLOGY IN ATC FIELD, ADVANCED DEVELOPMENT ACHIEVED BY US GOVERNMENT THROUGH HEAVY INVESTMENT AND IMPORTANCE OF COOPERATION THIS AREA BETWEEN US AND USSR.  
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8. SCST OFFICIALS THEN WENT DIRECTLY INTO PROBLEM OF SWEDISH COMPETITION, NOTING IMPORTANCE OF FACT THAT SWEDES NOT RPT NOT HAVE LICENSE TO SELL SOME COMPONENTS OF US TECHNOLOGY. THEY SAID THAT SWEDISH MINISTER OF FOREIGN TRADE JOHANSSON HAD RECENTLY MADE "SECRET VISIT" TO MOSCOW TO DISCUSS DEAL WITH SOVIET MINISTER OF FOREIGN TRADE PATOLICHEV. DURING MEETING JOHANSSON HAD REPORTEDLY SAID: "WE ARE AFRAID THAT US GOVERNMENT MAY NOT GIVE US A LICENSE. IF THEY REFUSE TO DO SO, WE SHALL FIGHT THEM ON GROUNDS OF DISCRIMINATION..." AS FURTHER AMMO AGAINST SWEDES, SCST OFFICIALS SUGGESTED MENTION THAT ALTHOUGH SWEDES MAKING MANY PROMISES ABOUT FUTURE DELIVERY, SPERRY-UNIVAC HAD ALREADY DELIVERED MANY SYSTEMS.

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INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-03 H-01

INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 CAB-02 COME-00 DOTE-00 FAA-00 OMB-01 TRSE-00

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FM AMEMBASSY MOSCOW

TO SECSTATE WASHC PRIORITY 7702

INFO USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

C O N F I D E N T I A L SECTION 2 OF 2 MOSCOW 2779

9. SCST OFFICIALS ALSO URGED HIGHER LEVEL OF US GOVERNMENT REPRESENTATION ON TRANSACTION, SAID US NOT "MATCHING EFFORTS MADE BY SWEDISH GOVERNMENT" OR BY OTHER GOVERNMENTS. (THIS PRESUMABLY REFERENCE TO FRENCH EFFORTS DURING AND AFTER BREZHNEV VISIT TO PARIS IN DECEMBER 1974.) FINALLY, THEY SUGGESTED THAT SPERRY MAKE APPROACHES TO SOVIET AMBASSADOR DOBRYNIN IN WASHINGTON AT A HIGH LEVEL.

10. MEETING WITH KIRILLIN.

BEGINNING AT 1700 FEBRUARY 27 SQUIRES AND SLIMAK MET FOR ABOUT TWO HOURS WITH SCST CHAIRMAN AND DEPUTY PREMIER USSR V. A. KIRILLIN. SCST OFFICIALS WHO HAD MET WITH THEM EARLIER IN DAY WERE ALSO PRESENT. ATMOSPHERE DESCRIBED AS RECEPTIVE, FRIENDLY. KIRILLIN RECALLED ONE-DAY VISIT WITH SPERRY OFFICIALS IN NOVEMBER 1974 IN PHILADELPHIA AND INSPECTION OF ATC SYSTEM AT LOGAN FIELD, BOSTON. HE INVITED SPERRY PRESIDENT MACDONALD TO VISIT USSR.

1. SLIMAK LED OFF BY EXPLAINING THAT SPERRY SERIOUSLY CONCERNED ABOUT DECISION WHICH HAS "EITHER BEEN MADE OR IS ABOUT TO BE MADE AT HIGH LEVEL IN SOVIET GOVERNMENT WHICH WOULD NEGATE NEARLY TWO  
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YEARS OF SPERRY NEGOTIATIONS TO SELL ARTS-III SYSTEM TO USSR," AND REQUESTED KIRILLIN'S ASSISTANCE IN REVERSING SUCH DECISION. HE MADE ONE-HOUR PRESENTATION DURING WHICH KIRILLIN ASKED FEW QUESTIONS, TOOK NOTES.

12. IN SUBSEQUENT DISCUSSION, TWO MOST SIGNIFICANT QUESTIONS RAISED BY KIRILLIN CENTERED ON:  
(A) PRICE AND COMPARISON WITH SWEDISH SYSTEM - KIRILLIN SAID STAANSAAB PRICE WAS ONLY ABOUT HALF THAT BEING CHARGED BY SPERRY. SLIMAK EXPLAINED THAT SPERRY PROVIDED FULL GUARANTEES FOR SYSTEM, TOOK FULL RESPONSIBILITY FOR REPLACEMENTS OVER LONG PERIOD; THAT SPERRY SYSTEM STILL NOT FULLY DEFINED, SO THAT RISK ELEMENTS MIGHT NEED CORRECTION, AND FINALLY THAT SPERRY HAD ALREADY INSTALLED 60 COMMERCIAL SYSTEMS IN VARIOUS PARTS OF WORLD WHEREAS SWEDES HAD INSTALLED NONE. ALSO NOTED THAT FAA OF US HAD SPENT MORE THAN ONE BILLION DOLLARS DEVELOPING SPERRY SYSTEM.  
(B) NEED FOR FULL FLOW OF TECHNOLOGY AND COOPERATION -- IN RESPONSE SLIMAK STRESSED OTHER SPERRY SALES TO USSR - AGRICULTURAL MACHINERY, HYDRAULIC GYROSCOPIC NAVIGATION EQUIPMENT.

13. IN CLOSING SPERRY REPS STRESSED VITAL IMPORTANCE OF TRANSACTION IN US-USSR RELATIONS AND IN TRANSPORT COOPERATION, ALSO ITS IMPORTANCE FOR SOVIET UNION AND SOVIET PEOPLE. KIRILLIN'S COMMENTS WERE THAT HE WOULD PERSONALLY LOOK INTO MATTER AND WOULD BE IN TOUCH WITH SPERRY. SLIMAK AND SQUIRES LEFT MOSCOW FOR HOME OFFICES MARCH 1.

14. COMMENT. EMBASSY BELIEVES THAT ABOVE DETAILS PROVIDE FAIRLY FIRM CONFIRMATION THAT DECISION TO PURCHASE US ATC SYSTEM HAS EITHER BEEN CANCELLED OR, FOR TIME BEING, SUSPENDED, APPARENTLY ON POLITICAL GROUNDS. SEVERAL FACTORS ARE PARTICULARLY INTERESTING: (A) STRONG CONVICTION ON MINISTERIAL END-USER LEVEL THAT SPERRY SYSTEM IS DEFINITELY BEST AND APPARENT REALIZATION THAT SWEDISH SYSTEM NOT FULLY FEASIBLE, TO EXTENT THAT SCST OFFICIALS WORKING WITH SPERRY-UNIVAC IN EFFORT TO SWING DEAL THEIR WAY; (B) APPARENT SIGNAL TO SWEDES THAT THEY ARE BACK IN RUNNING, WITH RESULTANT SWEDISH GOVERNMENT APPROACHES; (C) POSSIBLE ATTEMPT BY OVERRULING SOVIET AUTHORITY TO RATIONALIZE ACTION ON BASIS OF PRICE. UNANSWERED QUESTION IS WHO AT HIGHER LEVEL RULED AGAINST US.  
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15. EMBASSY BELIEVES SITUATION WARRANTS INTERVENTION AT POLITICAL LEVEL. WE FEEL THAT IF EMBASSY IS TO TAKE ACTION IT

SHOULD DO SO QUICKLY BEFORE BEFORE DECISION AGAINST PROCUREMENT  
FROM US BECOMES A SOLIDIFIED, BUREAUCRATIC POSITION.  
REQUEST DEPARTMENT'S INSTRUCTIONS FOR AMBASSADOR'S MEETING AT  
AN EARLY DATE WITH FIRST DEPUTY FOREIGN MINISTER KUZNETSOV  
(BELIEVE APPROACH TO MINISTRY OF FOREIGN TRADE WOULD BE  
UNPRODUCTIVE.

16. WE ALSO RECOMMEND WASHINGTON APPROACH TO DOBRYNIN (OR  
VORONTSOV IN HIS ABSENCE) WHICH WOULD SUPPORT APPROACH WE  
UNDERSTAND WILL BE MADE SOON BY SPERRY UNIVAC EXECUTIVES THERE.  
ON MARCH FIRST WE WERE TOLD BY SENIOR OFFICIAL IN MINISTRY  
OF FOREIGN TRADE THAT DOBRYNIN, WHO HAS BEEN IN MOSCOW ON  
CONSULTATION AND LEAVE, WILL BE RETURNING TO WASHINGTON  
ABOUT MARCH 15.  
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## Message Attributes

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